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It is a pleasure to be here with you today to discuss the outlook for U.S. agricultural exports. I have had to tell numerous groups things they didn't want to hear on many occasions while in government and am glad that today's discussion is not one of them. The prospects for agricultural trade in 1980 and beyond are bright. U.S. exports should reach record volumes next year for the third consecutive year. In dollar value we are anticipating a 19% increase over 1979's record exports of \$32 billion.

Before I look more specifically at the outlook for 1980, I would like to discuss some economic and policy variables which have influenced this tremendous growth in U.S. agricultural trade and which can be expected to continue to affect our exports in the coming years.

In the U.S. there are few, if any, agricultural issues which remain exclusively domestic in scope. The export environment is and will remain a major determinant of the health of the U.S.

Remarks by Dale E. Hathaway, Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture, before the Wharton Agricultural Forecasting Meeting, Chicago, Illinois, December 11, 1979

agricultural economy. Our ability to balance the interests of foreign purchasers, domestic consumers, and export earnings in a time of growing worldwide demand for food will be a crucial test of the talents of U.S. policy makers.

The next three years may be a critical transition period for the world's agricultural economy. Although it is impossible to predict weather and the impact it will have on commodity supply, it appears that we can expect a period characterized by reasonable balance in supply and demand over the next few years. Longer range forecasts, extending beyond the early 1980s, indicate continued stronger demand pressures and possibly real increases in commodity prices in the last half of the decade.

World population growth, an important factor in food demand, will not be appreciably different from the rate observed in recent years--1.8% per year. However, aggregate rates have little meaning for world demand. Growth rates for the U.S. and Europe will likely remain at less than 1%. A gradual continued decline in the population growth is expected for the USSR, China, and East Asia. In contrast, population growth in Africa, the Middle East and most of Latin America will remain very high for some time.

Population growth rates alone are not the only significant demographic variables in the food demand equation. The age

distribution of populations will also affect consumption requirements. While in the United States and much of Western Europe the average age is increasing beyond the age of maximum caloric intake, in much of the developing world the largest and most rapidly growing population segment is young adult workers with increasing food requirements. Thus, while population growth rates and age structure will dampen the growth in demand for foodstuffs in Western Europe, Eastern Europe, Japan, and the U.S., one or both factors will be strong forces expanding the demand for food in much of the rest of the world.

The second important economic variable is income growth. Here again, where the growth occurs and how it affects food consumption need to be examined carefully.

Current projections indicate a slower rate of worldwide growth in gross domestic product during the earlier 1980s than has been experienced in the 1960s and 1970s. From the early 1960s through the early 1970s the world economy recorded annual growth rates averaging 5%. Since 1970-72, growth in world gross domestic product, after adjustment for inflation, has slowed to about 3.7%. The present global economic slowdown, exacerbated by the June OPEC price decision, can be expected to result in delayed recovery, although the level of economic disruption may be less than that experienced in 1974-75.

The pattern of economic growth is expected to continue some trends established in the 1960s and 1970s. To illustrate these patterns, I will speak of countries in four general groups: the advanced market economies, centrally planned economies, rapid-growth middle income countries, and low income developing countries.

The advanced market economies have exhibited declining rates of real economic growth since the early sixties and are expected to be most notably affected by the economic trauma generated by oil price increases. But, these are economies where food consumption levels are already so high that income growth does little to change the demand for food.

Japan's economy which recorded annual growth in excess of 10% in the 1960s slowed to about half that rate in the 1970s. It should continue to expand at rates in excess of the world average but there too the odds favor relatively slow growth as compared to the late 1970s. This is one area where the difference will count since the income elasticity for red meat and some other products is still high in Japan.

With the exception of China, centrally planned economies have grown at faster rates than the world average during the last two decades. But, they also are experiencing economic difficulties not unlike our own. The Soviet Union may continue

to exceed average world economic growth, although there too, rates may be lower than in the 1970s. Several Eastern European countries have already been forced to cut back consumption and their energy dependence may require further curtailments of growth expectation. Real growth in China may spurt ahead of its historic rates and match the world rate in the early 1980s. Here, as in Japan, growth rates will affect food consumption and import requirements.

The rapid growth middle income countries will continue to outperform the more advanced market economies and the centrally planned economies. East Asia, North Africa and the Middle East regions are likely to continue to experience the most rapid growth rates, well exceeding the world average. Middle America, Brazil and certain other South American countries are also expected to continue to exceed worldwide growth rates. The degree of energy self-sufficiency of these countries will affect their growth. Those heavily dependent on imported oil, such as Brazil and Korea, may find it difficult to maintain the rate of growth experienced in the 1970s. However, the expanding and diversified export positions of these countries, as well as adequate financial reserves, should allow them to maintain growing production despite increased energy costs.

For the lower income countries, the outlook ranges from average to exceedingly grim. In certain countries, population

pressures and deteriorating financial positions may preclude any real economic advance. This will keep many of them from becoming major elements in world demand growth, but will also increase the need for development assistance and food aid.

Most projections include expanding population in the developing countries; continued price inflation; strong, but shifting accumulation of financial reserves; and a slower rate of worldwide economic growth; all of which have implications for agricultural trade.

Price inflation will mean continued increases in the cost of producing agricultural commodities. Soaring energy prices in particular may be increasingly disruptive to the transportation sector and may change the relative position of specific commodities, production methods, and exporting countries.

Producers in the major food exporting countries, the U.S., Canada and Australia, may find themselves increasingly squeezed by higher costs. Production methods in these countries use more energy based inputs --- fertilizers, herbicides, pesticides, and machinery power. These will be relatively more expensive in the 1980s as long as petroleum prices continue to soar.

In developing countries where productivity gains could be attained by the adoption of more advanced technology, these

modern inputs will also be increasingly expensive. The potential for yield increases is quite high in many developing countries, but limited financial resources and rising costs could make these new methods far less attractive to producers unless governments increase internal food prices sharply, a most difficult matter in very poor countries.

Expanding the land base for agricultural production will be difficult in both the developing and developed worlds. Bringing new land under cultivation is increasingly capital intensive; the productivity of such land is dependent upon new technology.

The recent oil price hikes also have increased the costs of transporting agricultural commodities sharply. Ocean freight rates for bulk shipments of grains rose by 50 to 150 percent between June 1978 and June 1979. Although some of this increase is passed on to overseas purchasers, a portion is also absorbed by producers who receive relatively less for their grain bound for export.

In major exporting countries, including our own, the structural problems of internal transportation systems have been exacerbated by rising fuel costs. The relative economics of alternative methods of transport have changed dramatically and the constraints of tradition, regulation and limited capital have not permitted the systems to react.

Slower real rates of growth in gross domestic product for the world will place a temporary damper on the demand for agricultural products. Rising income tends to generate demand for more animal protein which in turn generates higher demand for grains. The economic slowdown projected for the early 1980s may temper this income related growth in consumption. However, those countries which have recently accounted for much of the growth in demand associated with improved diets, i.e., middle and upper income developing countries and centrally planned economies, are not expected to experience as much of an economic downturn as the highly industrialized market economies.

Demand for food will continue to grow at a relative rapid pace in some of the areas that are already leading food importers, including most of the oil exporting nations and much of the rapidly growing parts of Asia. Major growth should also persist for the centrally planned areas, where political commitments to improving diets have a good chance of enduring the higher food prices that are also likely. In these, as in the high-income market economies, most of the growth in demand for food imports will be for the feedgrains and oilseeds needed for expanding livestock production.

For a variety of reasons, including limited natural resources, unpropitious climates and structural priorities within their economies, rapid-growth middle income countries

will have increasing difficulty in meeting the food needs of their growing populations from domestic sources. With rising incomes, demand for improved diets will intensify, and with the financial resources to support it, the solution will be increased imports. Mexico is a case in point. From a position as a net exporter of wheat and feedgrains in the late 1960s, Mexico has in the last few years become a net importer of grains. Exploding population and rising incomes combined with difficulties in expanding crop production, have led to increasing dependence on U.S. grains. In the coming years, with its new oil wealth, Mexico could become one of our major foreign markets.

Pressure on the U.S. dollar has made U.S. agricultural commodities a better buy on world markets and unless there is a strong recovery this will continue to be the case. In 1978. European and Japanese importers paid less in deflated or real terms for U.S. wheat, corn and soybeans than they had in 1979. Even in Mexico and Korea the "real" prices of these commodities have increased less than in the U.S. On a gold equivalent basis, the USSR could purchase twice as much grain in 1978 as in the early 1970s. To the extent that importing countries retain their relative financial strength, American agricultural exports will continue to be a bargain.

With slow but steady growth in demand for food and with agriculture's productive resources operating at near capacity,

commodity prices are not expected to repeat their roller-coaster ascent of the mid-1970s, barring unforeseen weather and bad policies. We have already seen a strengthening of wheat and feedgrain prices and it is safe to assume that these will not return to their low levels of 1977-1978. If high energy prices and general inflation mitigate against production expansion, and this is combined with unfavorable weather, the delicate supply/demand balance could once again be severely disrupted and commodity prices could soar.

Turning from the economic to the policy variables of our equation, I would like to simply mention some of the policy issues surrounding agricultural exports which I expect to be raised increasingly in the public forum. I will not attempt to forecast how or whether these issues will be resolved. Policy questions have a notable tendency to change as economic conditions change, only to resurface yet again unanswered in a new form.

The farmer-owned reserve program, initiated by this Administration in the 1977 Food and Agriculture Act and widely acknowledged as successful in stabilizing grain prices, will be a focal point of policy discussions in the coming months. The reserve was intended to absorb excess supplies of commodities in periods of low prices and to release these in times of short supply and higher prices. The extent to which the reserve program should be expanded to include additional crops and perhaps more

directly managed for producer price support is being discussed. Our maximum stock and reserve quantity targets will be reassessed and evaluated for price impact.

The existence of the farmer-owned reserve has increased the credibility of our claim to be a reliable supplier to other countries. We have made a commitment to our foreign buyers that the grain will be available as needed.

The decisions reached on reserve size, as well as release and call levels, may affect the competitive position of U.S. commodities in world markets. If reserve management results in excessively high prices, it could provide a price umbrella for increased production by foreign competitors. On the other hand, release and call prices too low could deplete the reserve too rapidly and curtail our ability to meet domestic and foreign obligations in years of short supply.

U.S. producers are and will continue to be squeezed by rising input prices. We are increasingly hearing suggestions that the United States should resort to multiple pricing techniques to increase the revenue from its foreign sales of grain. The slogan "a bushel a barrel" is only one popular expression of this growing concern. While we recognize the cost problems farmers are facing, the short-run appeal of such solutions must be examined in the long-run context of both world market implications and implications for our marketing structure.

Although I am not forecasting a return of the imbalance of the early 1970s, much of the burden of world adjustment is still likely to be concentrated in a few producing countries-- such as the U.S., Canada, Australia and Argentina. This burden is not going to be willingly assumed by producers or consumers within the United States. The farmer-owned reserve program may protect against temporary shortages or surpluses but it is a small shield when compared to potential worldwide production or consumption, or the cumulative imbalances that can occur with successive years of poor (or very good) crops.

The issue of equity in the international distribution of production/consumption adjustment may again be raised in the early 1980s. During the chaotic 1972-1975 period of falling production, rising demand and soaring prices, the cutback in world grain use was mainly due to sharp reductions in developed market economies, particularly the United States. The EC, centrally planned economies and some developing countries did not allow consumers to react to the signal of higher prices by reducing consumption. This lack of consumption adjustment in most of the world exacerbated the price situation and placed an excessive burden on the few free market economies. Dislocations were traumatic in the U.S. livestock sector.

In the next decade, the balancing of the interests of foreign exchange earnings, foreign purchasers, and domestic

consumers may require new innovative adjustment mechanisms. There is no question that we are becoming more dependent upon export markets; one out of every four acres in the U.S. is now producing commodities for export. If chronic domestic inflation persists and export demand is strong, the argument for insulating domestic markets from world prices may gain new voices.

The clamor from consumer and user groups to control exports in order to reduce domestic inflation is intensifying. The vast majority of letters following the announcement of the U.S.-USSR Grain Agreement supply level this year were complaints about "giving" our grains away while domestic food prices soared. The baking industry demanded that less wheat be made available for export so that their raw material prices would be lowered. We have strong pressures from domestic leather users to restrict hide exports. Many of these arguments lack basic understanding of economics or the current law, but the concern about conflicting interests of domestic consumers and export purchasers is audible and very real.

Alternatively, our ability to maintain and expand overseas markets could be eroded by declining availability of credit assistance. Both concessional (food aid) and hard credit financing of agricultural exports may be limited as other policy objectives take precedence. Development assistance and

market development activities are long-term investments and require consistent and regular expenditures to insure eventual returns. The example of Korea which evolved from a concessional sale recipient to a commercial export market should be remembered.

The poorer countries of the developing world will increasingly require food aid to prevent malnutrition and possible starvation. In parts of Africa and Southeast Asia, per capita food production has been declining since the mid-1960s. These countries will continue to depend on imported food but purchases will be constrained by their extremely limited financial resources. The Western industrial nations, experiencing their own economic difficulties, will still be called upon to provide the bulk of humanitarian food aid.

One last policy issue I would like to mention encompasses total world trade. Since 1970 the U.S. balance of trade has been deficit each year except 1973 and 1975. Until we diminish our dependence on imported oil, the prognosis cannot be significantly improved. There is a dangerous tendency, however, to point to other imported goods as the source of our trade problems, and correspondingly call for the restriction of imports of a variety of manufactured and agricultural goods.

The problem of rising oil prices and their impact on trade balance is not uniquely American. The transfer of financial resources to OPEC nations is felt by all nations not

self-sufficient in energy. We cannot expect to offset our imported oil bill by insisting that foreign countries purchase our exports while we limit their sales to us. Reasonably free or, at minimum, fair trade is required. The middle income developing countries in particular, will find their growth curtailed, their finances restricted, and will not be able to feed from our breadbasket if we close our vast consumer market to their goods.

Shifting from the general world economic and policy issues to the specifics of the export outlook for 1980, the scenario is close to ideal, at least from the perspective of U.S. producers. Bumper crops in the U.S. combined with poor growing conditions in some of the rest of the world with ample buying power indicates heavy demand for exports to be satisfied by record volumes of U.S. grains and oilseeds.

We project exports to increase by almost 20 percent in value this fiscal year to about \$38 billion and about 16 percent in volume. We expect shipments of wheat, feedgrains and soybeans, our leading export commodities, to total more than 130 million tons, compared with 112 million last year.

At the same time, the value of agricultural imports in fiscal 1980 is pegged to rise at a slower rate, probably to \$17.5 billion, which could give the U.S. an agricultural trade surplus of more than \$20 billion for the year. It was \$15.8

billion in fiscal 1979, and \$12 billion the year before.

Thus, our agriculture has become the shining success story in world trade. This is likely to continue, but its future rests heavily on the few economic and policy variables I have discussed.

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